APESB
Accounting Professional & Ethical Standards Board

AGENDA PAPER

Item Number:	11
Date of Meeting:	17 June 2025
Subject:	Update on Emerging Issue: Private Equity Investment in Accounting Firms

	Action required	x	**For discussion**	x	**For noting**		**For information**

Purpose

To provide an update to the Board on the emerging issue of private equity investment (PEI) in accounting firms.

Background

PEI in accounting firms is an increasing global trend,[1] rapidly accelerating since 2018 in the United States (US), the United Kingdom and Europe[2]. In the US, reports indicate that up to 10 of the 30 largest firms could include PEI in the near future,[3] including the recent PEIs in Baker Tilly US LLP and Grant Thornton LLP in 2024. While over 400 firms globally have received private equity funding,[4] investment in Australian accounting firms remains limited, with the most prominent investment being the purchase of Scyne Advisory from PwC by Allegro in 2023.[5]

The IESBA Firm Culture and Governance Working Group (FCGWG) received stakeholder feedback on this topic through the IESBA's Firm, Culture and Governance project. Following discussions at its September 2024 meeting and December 2024 meeting, IESBA agreed to address the topic separately and tasked the Emerging Issues and Outreach Committee (EIOC) with conducting further research. A Draft IESBA Staff Alert is scheduled to be discussed at the June 2025 IESBA meeting, with the final staff alert expected to be released in the first half of

[1] A typical private equity business model involves restructuring, expanding, or enhancing an entity's value before eventually exiting through a sale or initial public offering.
[2] See the recent Accountancy Europe report for an overview of PEI in Europe 2015-2025.
[3] https://www.irishtimes.com/business/2024/06/11/private-equity-groups-poised-to-own-one-in-three-top-us-accounting-firms/
[4] Microsoft Word - IFAC CE Forum April 2025 v090425
[5] Staff note that there may be other private equity transactions in smaller and mid-sized entities and further research will need to be undertaken to establish the prevalence in the Australian market outside the large firms.

2025.[6] APESB Technical Staff will provide a verbal update on the outcomes of the IESBA June meeting.

The issue has also been considered at recent IFEA Stakeholder Advisory Council meetings in November 2024 and May 2024, with concerns raised about potential impacts of PEIs on public trust, audit quality, ethics and independence, and governance and oversight. Regulators such as the United States Securities and Exchange Commission and the International Forum of Independent Audit Regulators (IFIAR) have publicly commented on the trend, and some standard-setters[7] (e.g., AICPA in the US) are exploring potential revisions to independence rules.

Overview of PEI in accounting firms

PEI structures are complex, and there is no single structure for investment.[8] Some investment structures result in a control relationship and others in a significant influence relationship. Despite this variation, several common structural elements of PEI can be highlighted, as outlined by IESBA staff at the March IESBA 2025 meeting:

- PEI typically leads to legal restructuring of the accounting firm into two distinct entities: an audit and assurance practice (audit firm) that is owned exclusively by professional accountants, and a non-audit practice (non-audit firm) that receives PEI. Note: In Australia, similar restrictions apply in relation to ownership of an audit firm, with the *Corporations Act 2001* and Professional Bodies requiring that authorised audit companies be owned by registered company auditors[9]. For audit firms (partnerships), at least one member of the firm must be a registered company auditor. In addition, members holding equity in a practice or principals of a practice must hold a public practice certificate[10].
- Generally, professional accountants retain some level of ownership in both firms and have exclusive control and decision-making for the audit practice. The non-audit firm handles all other professional services and provides resources to the audit firm through a shared services agreement. This agreement covers matters like leasing professional staff, technology tools, administrative support, office space, and more. Typically, the PE Investor is likely to have significant influence or control over the non-audit entity.
- Private equity structures can involve numerous general partners and advisors, as well as multiple funds. Each fund within the structure may hold investments in various entities, known as portfolio companies (PCs), both under the fund investing in the non-audit firm and under sister funds. The diagram below illustrates a common PEI in a non-audit firm.

[6] The FCGWG also noted that it is not within the IESBA's remit to provide a view on which ownership or legal structure is most suitable for firms nor to assess the merits of any particular structure. However, it acknowledged that the influence of ownership structures, including external equity investment, can have an impact on the firm's culture IESBA Firm Culture and Governance Working Group Final Report_0.pdf (paragraph 89-91).

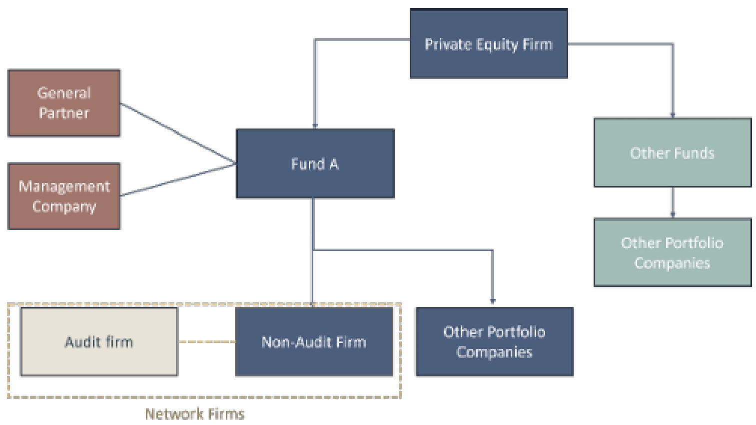
[7] Agenda_Item_2-Trends_in_the_External_Reporting_Ecosystem.pdf

[8] Refer to the June 2024 IESBA meeting presentation by AICPA for further examples of structures.

[9] See CORPORATIONS ACT 2001 - SECT 1299B Eligibility for registration as an authorised audit company, Regulatory Guide RG 180 Auditor registration.

[10] See for example CPA Australia: Licences and registrations for public practitioners in Australia, CPA: Summary of the regulation of public accounting services in Australia and CAANZ: CR 2 Certificates of Public Practice.pdf

Figure 1: A common PEI in a non-audit firm



Source: Draft IESAB Staff Alert June 2025

This structure is explained in the IESBA Staff Alert as follows (para. 6):

> [The diagram] illustrates a common structure for PE investment in which an accounting firm undergoes legal restructuring to form two distinct entities: a non-audit firm and an audit and assurance firm (or audit firm). The non-audit firm may provide professional services and resources to the audit firm through a shared services agreement. This agreement may include leasing professional staff, technology tools, administrative support, office space, and more. PAs have ownership in both firms and often hold a controlling interest in the audit firm, while the PE investment typically flows through a fund and provides the PE firm with significant influence or control of the non-audit firm.

Potential opportunities and concerns

While PEI can introduce new opportunities for accounting firms, it also raises several challenges that require careful consideration.

Key opportunities of PEI in accounting firms that have been noted include:

- Access to capital to fund growth – Investment can provide essential funding that enables firms to expand operations, enhance service offerings and pursue strategic growth opportunities.
- Investment in technology and innovation – With additional capital, firms are better positioned to invest in technologies to improve efficiency, support digital transformation and enhance client service. This opportunity is seen as a key driver of many of the PEI transactions.
- Talent acquisition and development – Additional resources can support hiring, training, and retaining top talent, helping firms build deeper expertise and maintain competitiveness.
- Enhanced operational efficiency – Investors often bring management expertise and operational experience that can help firms streamline processes, improve performance and provide strategic focus.

Key concerns related to the introduction of PEI in accounting firms include:

- Auditor independence and ethics – the influence of profit-driven investors may compromise auditor objectivity and independence, particularly if financial goals are prioritised over professional standards and public accountability (see below for further detail on potential impacts). In particular, the potential for a decline in service quality, including audit and advisory service quality (tax and other services), has been noted as a key concern by some stakeholders.
- Potential conflicts of interest – the potential conflicting aims of maximising returns for investors while maintaining audit integrity can create inherent conflicts. In particular, concerns have

been raised that there is a need to prioritise the public interest objective of firms, which may conflict with the aims of investors.

- Governance – private equity ownership may lead to shifts in governance structures, with investors seeking significant influence over key decisions. However, this is not always the case – some private equity investors adopt a more 'hands-off' approach, limiting their involvement in day-to-day governance.
- Impact on culture – concerns have been raised that a focus on financial performance may change leadership tone, reduce emphasis on professional values and potentially negatively impact ethical behaviour.
- Short-term investment horizon – private equity typically seeks returns within a defined timeframe (usually 3-5 years). This short-term focus may pressure firms to prioritise immediate financial results at the expense of longer-term investments in quality, training and innovation.
- Public trust and perception – a shift away from long-standing professional values toward investor-driven priorities may erode public trust in the accounting profession and diminish its reputation for integrity and objectivity.

Similar concerns have been echoed in other professions, including by Australian healthcare practitioners who have expressed concerns about the decline in the quality of patient healthcare under private equity ownership.[11]

Potential ethics and independence issues

The Draft IESBA Staff Alert highlights several potential ethical and independence issues arising from PEIs in accounting firms. At a high level, some of the ethical issues that have been identified as potentially arising due to the PEIs include:

- Objectivity – PEI ownership can create conflicts of interest that threaten objectivity, as commercial interests might not always align with the public interest. The Code prohibits allowing such conflicts to compromise professional or business judgment.
- Confidentiality—With new parties from PEI transactions, firms must reassess and safeguard client data in accordance with the Code's confidentiality principle.
- Professional competence and due care – firms must ensure they have the necessary expertise, uphold technical standards and maintain high-quality service regardless of investor pressure. The Code requires professional knowledge and skills to be maintained at the level required for competent professional service and to act diligently and in accordance with applicable technical and professional standards.

In terms of independence requirements, obtaining an understanding of the structure of the PEI is essential to assessing independence requirements, with different structures resulting in different key issues to consider from an independence perspective. High-level independence considerations related to PEIs in accounting firms, include:

- Identifying all entities in the PE structure, including:
    - firms and network firms – firms must assess whether private equity structures create networks, as network firms must remain independent of audit clients. Investments by private equity firms in audit or non-audit firms require evaluation of control or significant influence, which impacts the independence requirements of audit and network firms;
    - assessing other entities associated with the PE structure (e.g. Portfolio companies and shared service entities) – independence considerations applicable to related entities

[11] For example: Doctors Warn Accountants of Private-Equity Drain on Quality: You Could Be Next - WSJ, What Happens When Private Equity Takes Over a Hospital | Harvard Medical School and Is private equity unhealthy for our hospitals?

may be relevant if certain portfolio companies of the private equity firm are related entities of the audit, review or assurance client of the audit firm;

- Determine relevant individuals whose roles might subject them to independence requirements, for example:
    - Audit, assurance and engagement team members – maintaining independence for audit team members, engagement team members and any individuals within or engaged by the firm (or within a network firm) who can directly influence the outcome of the audit or assurance engagement are considered part of the audit or assurance team.
- Review all relationships and services involving these entities, including:
    - Business relationships and financial interests – close business relationships or financial interests with audit/assurance clients may create threats to independence; and
    - Family and personal relationships with audit client personnel.

Further detail on each of the topics, and other related considerations, is outlined in March 2025 IESBA Agenda Paper 5A and the Draft IESBA Staff Alert June 2025.

Next steps

The IESBA staff are working towards finalising the Technical Staff Alert following the June 2025 IESBA meeting. The Alert is expected to be released after the IESBA Board meeting. A verbal update on the outcomes of the IESBA June Board meeting will be provided at the APESB meeting.

APESB Technical Staff will continue to monitor developments in PEI in accounting firms and will report any emerging issues to a future Board meeting for consideration.

Recommendations

That the Board note the update on the emerging issue of PEI in accounting firms.

Authors: Channa Wijesinghe
Nikole Gyles

Date: 10 June 2025